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INSIGHT

Federal Economic Development and COVID-19 Recovery: Issues and Policy Options

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States and local governments traditionally lead U.S. economic development efforts, with the federal government selectively intervening to address significant need. However, the 2019 Coronavirus Disease (COVID-19) pandemic has caused pervasive social and economic dislocation and extreme subnational fiscal stress, straining existing federal economic development structures. This Insight examines current federal economic development policy and outlines various options for addressing a potentially lengthy pandemic recovery, or future such long-term challenges.

Federal Economic Development and COVID-19

The nationwide scope and protracted time horizon of the COVID-19 pandemic has challenged the existing economic development infrastructure at all levels of government. This system is not designed or arguably equipped to address scenarios in which otherwise unusual distress is endemic, and state and local governments are acutely constrained by both the scale of the crisis as well as fiscal limitations.

The Federal Approach: Distress-Based Interventions

In the United States' federal system, economic development activities are primarily the responsibility of state and local governments, which fund various programs that may include business relocation and retention incentives, workforce development, and other policies that stimulate growth and job creation. State and local governments are also the primary agents (sometimes with the support of federal funding) in other economic development-related activities—such as improvements to general infrastructure, housing, community facilities, land use, education, and public safety. Those unmet needs not fully addressed at the state and local levels, particularly in economically distressed or disadvantaged communities, are targeted through federal economic development interventions.

Most funding programs provided by the principal federal economic development agencies—the Department of Housing and Urban Development (HUD), the Economic Development Administration (EDA), the Department of Agriculture (USDA), and the federal regional commissions and authorities—prioritize economic development resources for communities exhibiting acute socioeconomic distress. For example, HUD's flagship Community Development Block Grant (CDBG) program is targeted at low- and moderate-income individuals in predominantly urban places. The EDA utilizes distress criteria, and has historically focused on rural and other non-urban places alongside USDA's rural development programs. The federal regional commissions and authorities employ taxonomies of distress in delineated geographic service areas to prioritize their economic development activities. In addition, federal tax incentives for economic development—such as the New Markets Tax Credit and Opportunity Zones—prioritize areas shown to demonstrate high levels of economic distress.

Economic Development in a Time of COVID

The efficacy of the federal distress-based approach to economic development is broadly conditioned on state and local governments' ability to conduct more general economic development. In situations of acute short-term disruption, such as a localized natural disaster or emergency, the federal government can utilize its economic development and emergency management toolkit to support state and local governments, organizations and businesses, and individuals with recovery.

However, the pandemic's scale and longevity has challenged the existing federal economic development and emergency management apparatus. In response, Congress has provided emergency supplemental appropriations to increase the capacity of existing federal economic development infrastructure and support temporary capabilities—such as the Federal Reserve's direct lending programs, supplemental unemployment insurance, stimulus cash payments, and the extended deployment of various short-term emergency management authorities and countermeasures.

Despite congressional action, the pandemic has contributed to surges in poverty, food and housing insecurity, waves of business closures, and a sharp annual decline in growth, indicating the limits of federal economic development approaches.

Policy Options for Congress

Congress may consider policy options for adapting federal economic development tools to address high-impact events with extended or indefinite time horizons (e.g., pandemics, climate/weather-related disasters, or manmade emergencies), such as:

- Increasing funding for HUD's CDBG program, and providing additional grantee discretion for addressing distress not necessarily captured in CDBG's current national objectives—such as fiscal and public health;
- Permanently authorizing broad-based relief tools like CDBG authorities for disaster recovery (CDBG-DR), or a CARES Act Coronavirus Relief Fund-type analogue, that could draw from a "no-year" strategic account similar to the Disaster Relief Fund;
- Developing a standing fiscal support function for states as well as localities, potentially based on an expanded Community Disaster Loan-type program;
- Building on the federal regional commissions model, providing a framework for establishing and resourcing intergovernmental federal-state regional commissions throughout the United States as the principal loci of regional economic development, like once provided under Title V of the Public Works and Economic Development Act of 1965 ("Title V" commissions);
- Developing authorities for targeted basic income and "job corps" workforce programs, which could be rapidly activated and expanded during emergencies to provide cash relief to affected individuals and fill urgent labor needs (such as contact tracers and medical auxiliaries during the pandemic); and

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- Establishing a permanent interagency infrastructure to plan and coordinate industrial mobilization and support, using the Defense Production Act (DPA) and other emergency authorities, to respond to future social and economic dislocations.

Congress may also consider policies to strengthen and revise the national approach to economic development generally, including:

- An integrated, intergovernmental economic development framework where federal, state, and local governments coordinate on planning, priorities, and funding;
- A greater emphasis on cultivating business development and job growth regionally ("economic gardening"), and shifting from incentive-driven regional competition to regional clusters of comparative advantage in a global economy; and
- Developing industrial policies that promote the development of strategic industries and supply chains—beyond the defense industrial base—and drive investments in domestic (and certain allied) supply chains anticipating various possible contingency scenarios.

Congress may also take steps to broaden the impacts of these reforms, such as by utilizing reinsurance markets for a permanent CDBG-DR-type program; authorizing federal regional commissions to issue bonds for strategic projects; broader adoption of federal loan and loan guarantee mechanisms in lieu of some grants; and taking equity positions as part of direct investments, including potentially in DPA Title III projects.

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